

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HJR 36

March 8, 2013

SUMMARY OF BILL: Proposes amending Article II, Section 28, of the Tennessee Constitution to prohibit, beginning July 1, 2019, the state or local sales or use tax on the retail sale of food and food ingredients for human consumption.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures – \$9,100/FY13-14

Other Fiscal Impact: If the proposed constitutional amendment is approved by voters, the fiscal impact would be a net decrease in state revenue in the amount of \$716,799,900, and a net decrease in local revenue in the amount of \$303,464,400, beginning in FY19-20.

Assumptions:

- Article XI, Section 3, of the Constitution requires publication of the resolution before the next legislative election. This publication would occur in the Spring of 2014.
- According to the Secretary of State, the average cost for publishing the resolution for the last three constitutional amendments was \$9,133. The one-time increase in state expenditures is estimated to be \$9,133 in FY13-14.
- According to the Department of Revenue, state sales tax collections derived from food and food ingredients were approximately 7.24 percent of total state sales tax collections in FY11-12.
- The current Fiscal Review Committee estimate for total state sales tax collections in FY13-14 is \$7,260,120,000.
- Under current law, state sales tax collections derived from food and food ingredients in FY13-14 are estimated to be \$525,632,688 ($\$7,260,120,000 \times 7.24\%$).
- The current state sales tax rate levied on food and food ingredients is 5.25 percent; the average local option sales tax rate is estimated to be 2.50 percent
- Under current law, taxable sales of food and food ingredients in FY13-14 are estimated to be \$10,012,051,200 ($\$525,632,688 / 5.25\%$).
- Taxable sales of food and food ingredients are estimated to grow by two percent per year. As a result, taxable sales of food and food ingredients for FY19-20 are estimated to

be \$11,275,195,801 ($\$10,012,051,200 \times 102.0\% \times 102.0\% \times 102.0\% \times 102.0\% \times 102.0\% \times 102.0\%$).

- The recurring decrease in state sales tax revenue is estimated to be \$789,263,706 ($\$11,275,195,801 \times 5.25\%$).
- The recurring decrease in local option sales tax revenue is estimated to be \$281,879,895 ($\$11,275,195,801 \times 2.50\%$).
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.603 percent of state sales tax revenue as state-shared sales tax revenue.
- Local governments are not held harmless from the loss of state-shared sales tax revenue under this bill.
- The recurring decrease in local revenue pursuant to the state-shared allocation is estimated to be \$36,329,808 ($\$789,263,706 \times 4.603\%$).
- The net recurring decrease in state sales tax revenue attributable to the tax prohibition on food and food ingredients is estimated to be \$752,933,898 ($\$789,263,706 - \$36,329,808$).
- The total recurring decrease in local sales tax revenue attributable to the tax prohibition on food and food ingredients is estimated to be \$318,209,703 ($\$281,879,895 + \$36,329,808$).
- Fifty percent of tax savings will be spent in the economy on other non-food sales-taxable goods and services.
- The current state sales tax rate levied on non-food sales-taxable goods and services is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- Pursuant to Tenn. Code Ann. § 67-6-103(q), no portion of revenue derived from the 0.5 percent sales tax rate increase, from 5.5 percent to 6.0 percent (effective April 1, 1992), or the 1.0 percent sales tax rate increase, from 6.0 percent to 7.0 percent (effective July 15, 2002), shall be distributed to local government.
- The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617% [$(5.5\%/7.0\%) \times 4.603\%$].
- The total tax savings are estimated to be \$1,071,143,601 ($\$752,933,898 + \$318,209,703$).
- The net recurring increase in state sales tax revenue as a result of 50 percent of tax savings being spent in the economy on other non-food sales-taxable goods and services is estimated to be \$36,134,012 [$(\$1,071,143,601 \times 50.00\% \times 7.00\%) - (\$1,071,143,601 \times 50.00\% \times 7.00\% \times 3.617\%)$].
- The recurring increase in state-shared sales tax revenue apportioned to local governments as a result of 50 percent of tax savings being spent on other non-food sales-taxable goods and services is estimated to be \$1,356,014 ($\$1,071,143,601 \times 50.00\% \times 7.00\% \times 3.617\%$).
- The total recurring increase in local revenue as a result of 50 percent of tax savings being spent on other non-food sales-taxable goods and services is estimated to be \$14,745,309 [$(\$1,071,143,601 \times 50.00\% \times 2.50\%) + \$1,356,014$].
- The net recurring decrease in state revenue, beginning in FY19-20, if the proposed constitutional amendment is approved, is estimated to be \$716,799,886 ($\$752,933,898 - \$36,134,012$).

- The net recurring decrease in local revenue, beginning in FY19-20, , if the proposed constitutional amendment is approved, is estimated to be \$303,464,394 (\$318,209,703 - \$14,745,309).

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CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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